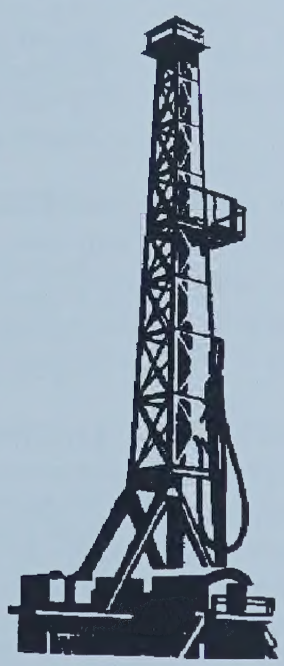
TRAFINA Energy Ltd.



Annual Report for
Year Ending
June 30, 1994

CORPORATE INFORMATION

OFFICERS

Roland T. Valentine
President and Secretary

DIRECTORS

Roland T. Valentine, President of the Company (1)
Robert G. Brawn, President, Danoil Energy Ltd. (1)
Donald J. Douglas, President, United Inc. (1)

(1) Member of the Audit Committee

CORPORATE OFFICE

Suite 888, 505 - 3rd Street S.W.
Calgary, Alberta T2P 3E6

Telephone: (403) 263-0800
Telefax: (403) 263-0811

BANK

The Bank of Nova Scotia
411 - 8th Avenue S.W.
Calgary, Alberta T2P 2N7

STOCK LISTING

Alberta Stock Exchange
Trading Symbol for Common Shares
"TFA•A"

TRANSFER AGENT

Montreal Trust
411 - 8th Avenue S.W.
Calgary, Alberta T2P 1E7

LEGAL COUNSEL

Bennett Jones Verchere
4500 Bankers Hall East
855 - 2nd Street S.W.
Calgary, Alberta T2P 4K7

AUDITORS

Chalmers White
Chartered Accountants
Suite 670, 10201 Southport Road S.W.
Calgary, Alberta T2W 4X9

ENGINEERING CONSULTANTS

McDaniel & Associates Consultants Ltd.
Suite 2200, 255 - 5th Avenue S.W.
Calgary, Alberta T2P 3G6

NOTICE OF ANNUAL MEETING

The Annual Meeting of TRAFINA Energy Ltd. will be held on:
October 26, 1994 at 10:00 a.m.
in the Second Floor Conference Room
505 - 3rd Street S.W.
Calgary, Alberta T2P 3E6

HIGHLIGHTS

- Purchased oil and gas interests, 3.6 bcf of gas (1,100 mcf/day) and 1.9 MSTB of oil (5 bbl/day) for approximately $1.0 million.
- Increased cash flow to $374,669 or $0.09 per share and increased earnings to $233,544 or $0.05 per share.
- Reduced bank debt by 38.3% or $306,501 from operational cash flow.
- Increased shareholder equity by 66% or $233,544.

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

On January 19, 1994, **TRAFINA** acquired oil and gas interests in the Atlee-Buffalo, Bindloss, Jenner and Princess areas of Alberta from a Major Independent Oil Company. **TRAFINA** then changed its status from a Junior Capital Pool Corporation to an emerging junior oil and gas company.

TRAFINA purchased mainly royalty interests on gas production. As royalty income has minor associated operating costs, a greater return to shareholders can be realized. Shareholder capital has increased by 66% in this past year.

Production of natural gas is approximately 1,100 mcf per day and oil is 5 bbls. per day. Production levels are expected to increase due to increased drilling activity on lands in the Princess and Jenner areas of Alberta on which **TRAFINA** holds a royalty interest .

During this next year, **TRAFINA** will be concentrating on increasing its production levels by trading its non-producing properties for producing properties and looking at further production acquisitions. Negotiations are presently underway for the acquisition of other producing properties.

Cash flow to June 30, 1994 increased to $374,669 or $0.09 per share and earnings increased to $233,000 or $0.05 per share.

Bank debt has been reduced by $306,501 or 38.3% indicating the present loan could be repaid in approximately one and one-half years under similar circumstances. Earnings coverage ratio is conservatively, 12.6 times last year's earnings.

TRAFINA views the future with optimism and growth for its shareholders during the next fiscal year. The company's financial position is growing stronger daily as revenues, cash flows and earnings increase. The prospects for the future are very bright.

ON BEHALF OF THE BOARD

Roland T. Valentine

Roland T. Valentine, President

AUDITORS' REPORT

To the Shareholders
TRAFINA Energy Ltd.

We have audited the balance sheet of TRAFINA Energy Ltd. as at June 30, 1994 and statements of earnings and retained earnings and changes in financial position for the year ended June 30, 1994. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the amended financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Chalmers White

Calgary, Alberta
July 12, 1994

CHALMERS WHITE
Chartered Accountants

TRAFINA Energy Ltd.
BALANCE SHEET
June 30, 1994

ASSETS

	1994	1993
CURRENT ASSETS		
Cash and short-term deposits	$ -	$125,260
Accounts receivable	110,771	1,326
Share purchase agreement (Note 2)	17,375	-
	128,146	126,586
PROPERTY, PLANT AND EQUIPMENT (Note 3)	991,795	-
	$1,119,941	$126,586

LIABILITIES AND SHAREHOLDERS' EQUITY

	1994	1993
CURRENT LIABILITIES		
Bank overdraft	$ 8,291	$ -
Accounts payable and accrued liabilities	45,978	19,031
Income taxes	33,692	-
	87,961	19,031
LONG TERM DEBT (Note 4)	493,499	-
DEFERRED INCOME TAXES	33,600	-
FUTURE SITE ABANDONMENT COST	5,146	-
	620,206	19,031
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)	338,083	179,447
Retained Earnings	161,652	(71,892)
	499,735	107,555
	$1,119,941	$126,586

APPROVED BY THE BOARD:

Roland I. Valentine Director

Director

TRAFINA Energy Ltd.
STATEMENT OF EARNINGS AND RETAINED EARNINGS
Year Ended June 30, 1994

	1994	1993
REVENUE		
Oil and gas sales	$666,792	$ -
Royalties	(10,693)	-
	656,099	-
Interest income	3,101	7,431
	659,200	7,431
EXPENSES		
Production	68,201	-
General and administrative	164,264	71,696
Interest	18,392	-
Depletion and amortization	102,361	-
Provision for site restoration	5,146	-
	358,364	71,696
EARNINGS (LOSS), before income taxes	300,836	(64,265)
INCOME TAXES (Note 6)		
Income tax	33,692	-
Deferred income taxes	33,600	-
	67,292	-
NET EARNINGS (LOSS)	233,544	(64,265)
DEFICIT, beginning of the year	(71,892)	(7,627)
RETAINED EARNINGS (DEFICIT), end of the year	$161,652	$(71,892)
EARNINGS (LOSS) PER SHARE	$ 0.06	$ (0.02)
FULLY DILUTED EARNINGS (LOSS) PER SHARE	$ 0.05	$ (0.02)

TRAFINA Energy Ltd.
STATEMENT OF CHANGES IN FINANCIAL POSITION
Year Ended June 30, 1994

	1994	1993
OPERATING ACTIVITIES		
Net earnings (loss) for the year	$ 233,544	$(64,265)
Items not involving cash		
Depletion and depreciation	102,361	-
Provision for site restoration	5,164	
Deferred income taxes	33,600	-
Cash flow from operations	374,669	-
Change in non-cash working capital	(48,824)	4,100
Cash provided from (used in) operating activities	325,845	(60,165)
FINANCING ACTIVITIES		
Issuance of common shares	158,636	136,378
Long term bank debt	493,499	-
Advance to shareholder	(17,375)	-
Cash provided from financing activities	634,760	136,378
INVESTING ACTIVITIES		
Oil and gas acquisition	(1,059,071)	-
Office equipment	(35,085)	-
Cash used in investing activities	(1,094,156)	-
INCREASE (DECREASE) IN CASH	(133,551)	76,213
CASH, beginning of the year	125,260	49,047
CASH (BANK OVERDRAFT), end of the year	$ (8,291)	$125,260
CASH FLOW FROM OPERATIONS PER SHARE	$ 0.09	$ (0.02)

TRAFINA Energy Ltd.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 1994

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependant upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgements. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies set out below:

a) Oil and gas

The Company is engaged in the exploration for and development of oil and natural gas in Canada. Its activities are conducted jointly with other industry partners and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

The Company follows the full cost method of accounting for oil and gas operations whereby all costs relating to the acquisition of, exploration for, and development of, oil and gas reserves may be capitalized. Such costs include lease acquisition costs, geological and geophysical costs, lease rentals, drilling, plant and equipment costs and related overhead. Proceeds form the disposal of properties are applied as a reduction of the cost of the remaining assets with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion or depreciation.

In applying the full cost method, the Company calculates a cost ceiling which restricts the capitalized costs less accumulated depreciation and depletion from exceeding the estimated future net revenue from proved reserves based on year end prices and costs adjusted for future contracted price changes where applicable, plus the net cost of undeveloped acreage, less future general and administrative expenses, site restoration costs, financing costs and income taxes. The Company's reserves are determined by independent engineers.

Exploration and development costs are depleted using the unit-of-production method based on gross estimated proved oil and gas reserves (converted to equivalent units on the basis of estimated relative energy content). In determining the appropriate depletion rate the company considers the net book value of its proved oil and gas reserves, as well as the estimated future costs to be incurred in developing proved reserves and abandoning depleted properties and the cost of undeveloped acreage.

Estimated costs of future site abandonment and restoration of well sites and associated facilities are accrued over the life of the properties on a unit of production basis and are estimated by independent engineers.

b) Office equipment

Depreciation of office equipment is provided at the following rates using the diminishing balance method.

Office Furniture	20%
Computer Equipment	30%
Computer Software	100%

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Income Tax

The Company follows the tax allocation method of accounting for income taxes whereby the income tax provision for the year is based on income reported in the accounts. Under this method, the Company provides for deferred income taxes as a result of claiming deductions for income tax purposes in excess of amounts claimed for financial statement purposes.

d) Earnings and cash flow from operations per share

Earnings and cash flow from operations per share are calculated using the weighted average number of shares outstanding during the year.

2. SHARE PURCHASE AGREEMENT

The employee share purchase loan is by agreement, repayable by June 30, 1995 with interest at bank prime plus one percent.

3. PROPERTY, PLANT AND EQUIPMENT

	1994			1993
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Oil and Gas Properties	$1,059,071	$ 96,587	$962,484	$ -
Office Equipment	35,085	5,774	29,311	-
	$1,094,156	$102,361	$991,795	$ -

4. LONG TERM DEBT

	1994	1993
Revolving term bank loan	$493,499	$ -

The Company has a revolving term loan facility, subject to annual revision, with a current revolving borrowing base of $800,000 bearing interest at a bank's prime rate plus one percent. At June 30, 1994, the Company had drawn $493,499 under the revolving term loan facility. The loan is secured by a property and fixed charge demand debenture in the amount of $1,000,000 over the Company's property, plant and equipment, a general assignment of accounts receivable and a security under Section 426 of the Bank Act. The bank has imposed, as a condition of the loan, a restriction upon the payment of dividends and other bonus payments.

Management anticipates paying this loan down by approximately $180,000 in 1995.

5. SHARE CAPITAL

a) Authorized:

Unlimited number of Class A and B Common Shares
Unlimited number of Preferred Shares issuable in series

b) Issued, Class A Common Shares

	Number	Amount
Balance, June 30, 1992	1,975,000	$ 63,500
Issued during the year for cash	1,575,000	115,947
Balance, June 30, 1993	3,550,000	179,497
Issued During the year for cash	848,750	158,636
Balance, June 30, 1994	4,398,750	$338,083

c) Options

The Company has a stock option plan for officers, directors and key employees. At June 30, 1994, the Company had granted options to purchase 173,750 Class A Common Shares at a price of $0.10 per share. These options expire on March 27, 1997. Options exercised during 1994 totalled 248,750.

6. INCOME TAXES

The provision for income taxes in the statement of earnings and retained earnings reflects an effective rate which differs from the expected Canadian income tax rate. These differences are accounted for as follows:

Expected combined federal and provincial rate of 43.34%	$133,352
Increase (decrease) in taxes resulting from:	
Non deductible crown charges	6,958
Resource allowance	(36,289)
Losses carried forward not booked	(34,551)
Share issue costs	(5,125)
Site restoration and other	2,947
Actual income tax expenses	$ 67,292

The Company has available resource related deductions which may be carried forward indefinitely and used in the prescribed manner to reduce taxable income in future years. At June 30, 1994, the approximate amount of resource related deductions was approximately $916,000.

RESERVES PROFILE

Outlined below in Table I is the profile of the oil and gas reserves of **TRAFINA,** commencing July 1, 1993, as estimated by McDaniel & Associates Consultants Ltd. ("McDaniel") as of October 19, 1993. Please note the Bindloss interest is a net profits interest and by agreement does not have any reserves dedicated to this interest but is shown here for illustrative purposes.

TABLE I

	Gas (BCF)	**Oil (MSTB)**	**NGL (MSTB)**	**Before Tax 10% DCF ($M)**	**% of Reserves @ 10% DCF**
Bindloss Unit No. 1 - NPI [1]	1.42	0.0	0.0	1,381.0	46.25
Princess - RI [2]	1.04	0.0	0.0	1,024.7	29.20
Princess - WI [3]	0.67	0.0	0.0	596.8	18.95
Jenner - RI [2]	0.43	1.9	0.1	211.9	5.85
Atlee - WI [3]	0.00	0.0	0.0	-7.1	-0.26
TOTALS:	3.56	1.9	0.1	3,207.3	100.00%

During the year, the company produced the oil and gas outlined in Table II below.

TABLE II

	Gas (mmcf)	Oil (bbls)	NGL (bbls)
Bindloss Unit No. 1 - NPI [1]	190.12		
Princess - RI [2]	105.69		
Princess - WI [3]	73.71		
Jenner - RI [2]	19.48	1,948.9	41.7
TOTALS:	389.03	1,948.9	41.7
TOTALS PER DAY:	**1,066.5 mcf/d**	**5.3 bbl/d**	**.11 bbl/d**

Oil production has achieved the McDaniel estimates in one year and management calculates that oil production to date represents 27% of the total saleable oil. Table II's production would have to be taken into consideration in order to obtain the current reserves of the company.

NOTES:

(1) NPI - Net Profits Interest
(2) RI - Royalty Interest
(3) WI - Working Interest

TRAFINA Energy Ltd.
888, 505 - 3rd Street S.W.
Calgary, Alberta T2P 3E6